bajaj corp limited

April 20, 2017

DCS-CRD BSE Limited First Floor, New Trade Wing Rotunda Building, Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 023 Fax No.2272 3121/2037/2039 **Stock Code: 533229**	National Stock Exchange of India Ltd. Exchange Plaza, 5th Floor Plot No.C/1, 'G' Block Bandra- Kurla Complex Bandra East Mumbai 400 051 Fax No.2659 8237/8238 **Stock Code: BAJAJCORP**

Dear Sir/Madam,

Sub: Conference Call transcripts

Please find attached a copy of the Conference Call transcripts in respect of Bajaj Corp Limited dated April 17, 2017.

The same may please be taken on record and disseminated to all.

Thanking you,

Yours faithfully,
For **BAJAJ CORP LIMITED**

Hitesh Kanani
General Manager - Company Secretary

Encl: as above

“Bajaj Corp Q4 FY2017 Earning Conference Call”

April 17, 2017

MANAGEMENT: **MR. SUMIT MALHOTRA – MANAGING DIRECTOR, BAJAJ CORP LIMITED**
MR. V.C. NAGORI – BAJAJ CORP LTD.
MR. DILIP MALOO – CHIEF FINANCIAL OFFICER, BAJAJ CORP LIMITED
MR. KUSHAL MAHESHWARI – HEAD (TREASURY & INVESTOR RELATIONS), BAJAJ CORP LIMITED

MODERATOR: **MR. ANAND SHAH – KOTAK SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Corp Q4 FY2017 Earning Conference Call hosted by Kotak Securities Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Anand Shah from Kotak Securities Limited. Thank you and over to you sir.

Anand Shah: Thank you, Janis. Good morning everyone. And on behalf of Kotak Institutional Equities, I welcome you all to the Bajaj Corp. 4Q FY'17 Earnings Conference Call. We have with us the senior management of the company represented by Mr. Sumit Malhotra – Managing Director, Mr. Dilip Maloo – Chief Financial Officer and Mr. Kushal Maheshwari – Head (Treasury). I would now like to handover the call to Sumit for opening remarks. Thanks and over to you sir.

Sumit Malhotra: Thank you Anand. Good afternoon to all and welcome to the conference call for the declaration of the fourth quarter and annual results for the financial year 2016-2017 of Bajaj Corp. With me are Mr. Maloo, who is the CFO and Mr. Kushal Maheshwari – the Head of Treasury and Investor Relations.

The company has closed Financial Year '17 with a turnover of 790 crores. The growth is flat vis-à-vis the last financial year. The EBITDA for the year is 270 crores which is a decline of 3% over the EBITDA of the last financial year. As a percentage of sales, the EBITDA remains a very healthy 34.2%. The PBT and PAT are 280 crores and 220 crores after adjusting the exceptional item of 18.38 crores. The PAT for the year has grown by 11.6% over the previous year.

After uncertain third quarter, the fourth quarter was again a weak one. The volumes have declined at 6.9% whereas the turnover has declined by 1.9%. As a result of the weak H2 of the second half of financial year '17, the company ended the flattish sales turnover. In terms of volume sales, there was a drop of 3.2% during this financial year. Despite the strain on volume due to related weakness in raw materials and a respective strategy to purchase raw materials at the bottom of the turf, the EBITDA margins remain a very healthy 34% for the full financial year.

The environment continues to remain subdued with overall Hair Oil market growth at just 1.6% in value terms for the period March - April '17. Within the Hair Oil industry, the volume growth of the Light Hair Oil was slightly better at 4%. During the fourth quarter, the Hair Oil industry volume growth has picked up marginally vis-à-vis the third quarter but not substantially. The revival in Hair Oil growth are more in the urban markets whereas the rural market growths are yet to come back to the levels that they were in the last year or even in the second quarter of this financial year. Though the offtakes of our main brand Bajaj Almond Drops have improved, primary sales volumes haven't reversed the declining trend. The

improved offtakes have resulted in an improvement in market shares during January and February. The market share in Feb 2017 has touched an all-time high of 61.3% in value terms.

The strain on our primary sales volume is mainly due to destocking that continues in the wholesale segments as well as the rural markets. I expect this strain on both of these sectors to continue into the first quarter of this financial year also. The wholesale sector is undergoing a major change in the way they do business. With the sucking out of cash during demonetization and the upcoming implementation of GST, the cost advantage of wholesaler dealer have is evaporating. On the other hand, the rural sector should see a reversal if the monsoon as good this year. With the strain on volumes and the infrastructure, especially in the wholesale sector, the focus is back on to direct distribution. We have increased our focus on improving efficiency of our sales force to improve our direct reach. The overall reach of Almond Drops is now at 37.19 lakhs outlets. We are targeting to reach at least 20% of these outlets directly in the first half of this financial year. This will happen with the improvement in efficiency and also because of the increase in number of feet on ground during this year.

On the cost front, in the quarter we are able to maintain the price of inputs. LLP remained at Rs. 46.22 per kg versus Rs. 46.37 per kg which was there in the third quarter of this financial year. The LLP prices this quarter versus the last year same quarter are also nearly the same. This year due to long-term contracts and effective utilization of the **(Inaudible) 5:56** facilities we have maintained a very competitive rate of LLP. Even though the spot prices of LLP have gone up to Rs. 64 a kg, we are still using the LLP which we stored at Rs. 46 a kg. As pointed out, we have been testing the new strategy on the brand Nomarks in two states in India. The new strategy is based on a new communication strategy which is on the back of extensive clinical trials done on the brand. The focus in the test market is on using chemist panel for distributing Nomarks Cream and using an integrated marketing campaign to improve consumer awareness and preference for our brand. We will be extending this strategy both in terms of communication and distribution in more states. On back of this and our improved reach in international markets, we should see a reversal of sales trends on Nomarks in the first half of this financial year. Our new facility in Guwahati has started functioning and is capable of feeding the complete eastern market for Bajaj Almond Drops. With the GST rules becoming clearer, this facility will akin more importance. Over the next one year, another factory has been planned at Baroda which would start functioning and thereby providing us three locational hubs for production. As you would know under the GST rule, this would be a major advantage in terms of saving or rationalizing taxes across India. We are now open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is, in October you had pointed that there is a significant improvement in both urban and rural. Obviously, demonetization has derailed it. But sir, what we are seeing is in Q4 most other companies are showing decent recovery. So in your case is competitive intensity

also an issue which is making it tough and of course the wholesale percentage being higher? So any numbers you can put on wholesale? What number you are expecting say two years down the line versus current levels?

Sumit Malhotra: In terms of competitive intensity, if your market share is going up, obviously competitive intensity is not rising, right? And I told you that we are actually growing faster than the Light Hair Oil market and Light Hair Oil is growing faster than the Total Hair Oil. Which means that, not only are we gaining market share in Light Hair Oil, but we are also gaining market share in Total Hair Oil, that is all branded hair oils. Regarding focus on wholesale, we are currently around 47% of our sales comes from wholesale. My gestimate and I don't think anybody can answer that question with a lot of confidence, is that because of this reorganization of infrastructure that is going on, in our kind of thing it will drop to sub 40 in 1-1.5 years.

Abneesh Roy: Sir on competitive intensity, my question was not on yields and market shares, my question was, we have seen Dabur also say that they are doing good numbers in their Almond Hair Oil, so it was more in context of the direct competition which is also reporting good set of numbers.

Sumit Malhotra: In fact, if we go to the market, except modern trade, Dabur Almond is not doing as well. So I think we will just have to wait for their results to come out and see what kind of growth numbers in terms of their primary sales are being shown, because Nielsen isn't showing any improvement. In fact Nielsen figures are showing a decline, significant decline in Dabur Amla.

Abneesh Roy: Sir my second question is on the tax rate. It was around 21%-22% in FY'18. So for FY'18 and '19 what do you expect in terms of tax rate?

Sumit Malhotra: I think definitely it will remain at 22 and the way the growths are coming in due to possibly have a part of '19 also having 22%.

Abneesh Roy: And the balance part of '19 will move to what number?

Sumit Malhotra: See, the government has promised a decrease in income tax also. So if we go back to what other people are paying in terms of income tax, which would be around 33%, if there is no reduction in the income tax**.**

Abneesh Roy: And sir in terms of GST rate, any clarity you are getting based on discussion? In your case how things will change post the implementation, any idea?

Sumit Malhotra: See, in terms of from the council, I don't think we have got any clear indication. There are two sides, one side says it is going to be 18 because these are essential items and 18 will go into essential. The other guys are saying that since most of the other hair oil companies actually pay more than 18% tax as if now, so it will go to 28, but I think we will just have to wait for the 18th of March to see what numbers are actually coming.

Moderator: Thank you. The next question is from the line of Karthik Chellapa from Buena Vista Fund. Please go ahead.

Karthik Chellapa: Few questions. Firstly what I would like to know is, in our presentation we highlight that we intent to reach a market share of about 65% by 2018. Now, I know that is not a guidance but an aspiration. Apart from market recovery especially in rural markets, what additional steps do we need to do from our side to make sure that, that 65% market share becomes more of a reality rather than an aspiration?

Sumit Malhotra: Karthik, there are 3-4 states where we are sub 50 in our market share, right? And I think the focus on these states have been essential in taking our market shares up because the bigger state if you look at is West Bengal. And West Bengal if you look at the market share you will find that it is sub 50, right? And if you look at it, you will see that the saliency of West Bengal in the overall Light Hair Oil market is approximately 9%. So in 9% if I can gain around 10% market share so I would have gained 1% directly on to my total market share. We have identified these states and we are focusing on getting higher market share in these states because where as all India we have a volume market share of 58%, therefore states which we have sub optimal. Rajasthan, West Bengal being two big ones.

Karthik Chellapa: Perfect. And sir related to that, our relative market share year-to-date at 4.6, I think it is the highest that we have seen.

Sumit Malhotra: Yes.

Karthik Chellapa: But nevertheless we have lost about 30 basis points market share on a year-on-year basis. That would mean that we have actually gained significantly against keo karpin, but there are one or two smaller challengers who may have probably gained share. Is that reading right and who would those challengers be?

Sumit Malhotra: What will happen is, when you are the runaway leader in India in any market, whether it will be Light Hair Oil or Toothpaste or Soaps or anything, you will have regional players eating into your market share. For example, you will find that may be in one or two places, Himami 7 in 1 is sort of taking point, one percent away from you. Some places even Keo Karpin is taking away in one or two states. So, in national you will see no players really hurting your market share. But in a regional level you will see this 0.1%-0.2% being sort of eroded. And the name of the game is now not fighting the national, but is actually fighting regional players, it is really like our politics Karthik**.**

Karthik Chellapa: Okay. Great. And sir on Nomarks you have indicated that you will be rolling out to few other states. So if I were to club both Nomarks and the Amla together which has started to show some traction, can you give us some sense on how many states do you think you can extend this to into FY'18 and what kind of ramp up in the wholesale number should we expect?

Sumit Malhotra: I do not think there would be a ramp up in wholesale number and the reason is that, like I said in my opening address, the biggest strain of demonetization and the upcoming GST will be felt on wholesale because you should realize wholesale makes its money on saving taxes and both of these are actually making it difficult for the sector to run on cash. So I do not think there will be a ramp up on wholesale; there will be a ramp up in direct distribution which would come out of higher efficiency of existing sales force and addition of sales force, right? But in terms of states, what we have done is we have taken the major states across the country and we are dividing them into two parts. One, where the focus on Nomarks will be higher and the other where the focus on Amla would be higher. Typically the urban states you will see more focus on Nomarks and the larger rural states you would see effect of the focus on Amla. So like I just said a little time ago, that I think the time has come that we have got to fight regional wars rather than a national campaign. So you would see regional campaign all over the place depending on whether the focus market is Amla or Nomarks, you would see different strategy.

Karthik Chellapa: So in conclusion both Nomarks and Amla should see some kind of year-on-year growth in FY'18 in your estimate as of now?

Sumit Malhotra: FY'18, Nomarks Cream, because the focus will be Nomarks Cream.

Karthik Chellapa: Perfect. And sir my last question is, in our presentation we do keep mentioning at least for I think 2-3 quarter now that we are looking to extend the Almond Drops equity to other products. When do we expect to see some kind of action on that front?

Sumit Malhotra: Karthik, in India you will see that, we have actually tried Almond Drop Soap by giving it free along with one size of Almond Drop. Slowly that will extend into other markets and one by one into the states all over the country. But again this will not be a game changer. It would be more in terms of building up the brand equity of Bajaj Almond Drops. But you will see this soap on the markets of modern retail in India.

Karthik Chellapa: Okay and sir last question if I may, what percentage of our Almond Drops revenue today comes from say plastic containers versus glass and how are we thinking of this mix going forward, given that glass is now one of our biggest cost component?

Sumit Malhotra: See, there are two parts of it. One is glass being a big part, so now in terms of PET we have a 3 ml, 20 ml these are the two smaller sizes, 300 and 500 those are the two larger sizes. So 50, 100, 200 which is approximately a little under 50% of our sales is still glass. That is half of the story. We are actually working on a way of making glass cheaper itself, because there is a potential of stop selling in glass which we have been working on for last 1.5 years. We should see the result this year.

Moderator: Thank you. The next question is from the line of Samir Gupta from IIFL. Please go ahead.

Percy Panthaki: This is Percy here. Sorry if this has been covered, I joined a little late. But could you just give me some information on any price increase generally you take it in April, so have you taken it this year?

Sumit Malhotra: Not yet.

Percy Panthaki: But, is it likely to come up or this year given the subdued demand you think you would rather not take a price increase?

Sumit Malhotra: There are two things that may force us to take a price increase. One is the cost of raw material, especially light liquid paraffin, which has jumped from Rs. 45 - Rs. 46 a kg to Rs. 64 a kg as recently announced. And the second is the GST rate. The reason why we haven't yet taken a price increase is that, if the rate announced is 18% we may not have to. If it is 28, we will have to build in some negative impact of GST plus the negative impact of the inflation of our raw material, impact of raw material.

Percy Panthaki: Sir what is your current indirect tax rate?

Sumit Malhotra: We don't pay excise. So we are approximately at around 18.9%

Percy Panthaki: So the average VAT rate itself is 18%-19%?

Sumit Malhotra: No. Average VAT rate end consumer is 14%.

Percy Panthaki: And the remaining 3%-4% local entry taxes etc.?

Sumit Malhotra: Yes. And service tax on advertising, rate and all that thing.

Percy Panthaki: Understood. And sir just some idea on the overall demand situation, I mean Q3 and Q4 have been approximately the same in terms of volume decline. So are you seeing absolutely no sort of revival after the remonetization because a lot of the other companies also the results are not out when speaking to them, they did mention that there is a definite recovery from Q3 levels?

Sumit Malhotra: There is a recovery from Q3 levels. So the only thing is we have to look at one thing, which is probably in offtakes and recover in your sales, direct billing to your distributors. That is in our case, if you look at offtakes, the volumes have gone up, right? And the second thing is that, remember the Q3 a lot of people are equating the second half of Q3 that is post demonetization into the whole Q4, right? And whereas the numbers we will be seeing is actually the whole Q3 this is half pre-demonetization and half post. Demonetization actually hit us 10-12th of November. So, it is just how you frame the question and how I answered it, which caused all the little confusion.

Percy Panthaki: Understood. So sir in your view, when do you think volume can come back into positive territory and what is required for this to happen?

Sumit Malhotra: See, what is required is that, you should increase your direct distribution to take over the load or part of the load that has been left open because of the wholesale. The second is, I think we need more clarity on GST and the third obviously like in India we always talk about a good monsoon.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir your gross margins have still improved in spite of healthy LLP going up because of the inventory levels which you have built up and also you mentioned on the price hike. So, on gross margins where do you see FY'18? Do you expect still some improvement?

Sumit Malhotra: On gross margins, no not this year because we are taking a punt on crude price will still go up during the year and therefore there will not be a continuous strain on LLP, and until we take a very large price increase which under the current circumstances is avoidable. So you won't see expansion in gross margins. But that is not the worry Abneesh because our gross margins are really high. We are close to 68% margin. So even if it contracts a little bit, we still have a lot of plain margins to keep our EBITDA healthy.

Abneesh Roy: And how much inventory you still have sir, of LLP at lower level?

Sumit Malhotra: We would be covered for major part of it.

Abneesh Roy: And the compression in margins, if at all you do not expect that to be much, right? You said some competition?

Sumit Malhotra: No. Like I said, all indications that we will have to take a price hike, once a little more clarity in GST is there, we would take a composite price hike rather than take a price hike now and take a price drop or a price hike after the GST rates are announced.

Abneesh Roy: Sir, you have been implementing the sales force automation project Saathi. So if you could give us an update on that? And when do you see that translating to numbers? Will it be in second half of FY'18?

Sumit Malhotra: See, the numbers are already coming in. Our secondary are rising, but the most important thing is actually effective use of your sales force. See, remember if you have more than 1000 odd sales people in the market, it is virtually impossible to track all of these 1000 and therefore you will have a certain percentage of these sales people who are operating sub optimally. But here is the real time mechanism was actually helping the supervisors, the officers track the people under them. Normally each officer has 5-6 people under him and he can actually find out where there is a slack in sales calls or sales or maybe even **25:17 coveralls,** if you can call it that way. So therefore, the first bid would be increasing the effectivity of the sales force. I can go on on this. It's the amount of data that comes in as enormous. We used to have at one point

of time 10 MIS guys looking in data, we have nearly double the number of MIS guys just to track the amount of data that is coming out of these handhelds.

Abneesh Roy: Sir, Nomarks had been relaunched and the ad is also now much more focusing on the removal of the mark etcetera. So we have also seen the market leader in the overall skin space. They are also now using, in some of their ads, the same positioning for their overall general kind of a cream. So in that context are you finding the current performance as per the benchmark I think it is early, but still because competition, big player has also adopted a similar kind of strategy. So has it kind of made things a bit difficult for the relaunch?

Sumit Malhotra: Abneesh**,** can I ask you a question? Whom do you think is the leader in the Antimarks cream category?

Abneesh Roy: Sir, it is all that, if the overall skin cream that market leader also starts…

Sumit Malhotra: Whom do you think, which brand is the market leader now?

Abneesh Roy: Sir, you can answer that better.

Sumit Malhotra: You said, right? I think you were hinting at No Scar. The point that we made is actually FAL, or Fair & Lovely Nomarks has really come back in the last two month.

Abneesh Roy: Sir, my question was also on that only, FAL only, I said market leader… So let me clarify, I was asking on FAL only.

Sumit Malhotra: FAL has come back over the last two months, but what FAL has actually done is, it has actually grown the market significantly in the last two months and the reason they have been able to do it is, they have actually been able to grow the grocery part of their sales, right? Because original FAL is not chemist driven product. It is a process or general merchant driven product. And as a result the market itself is growing and therefore if you look at these two states where we have pushed, in one state we are around 2.5 times the normal run rate and in another 4 times the normal run rate. So keeping that in mind I think it is doing better than the market in these two states.

Abneesh Roy: And when do you say expansion into other states, because you are doing national media?

Sumit Malhotra: We have already started Abneesh and I think the next expansion would stop sometime in May-June of this year. So we would get into 4 more states, by May-June of this year.

Abneesh Roy: Sir in Q3 modern trade growth was 27%, so has that slowed down? So are things back to buying in cash and the Kirana stores?

Sumit Malhotra: Modern trade for us grew at 24% in Q4, so it is not marginally different. But yes, buying is cash is back into go again**.**

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir your presentation, on first slide, there is some reclassification of hair oill markets, if you can help us to understand what has changed there?

Sumit Malhotra: In the first slide, looking at the total?

Tejas Shah: Yes, sir. The total. There is a new category Ayurvedic and Herbal is also coming in and VACNO is also there. So just wanted to understand how the category has been reclassified?

Sumit Malhotra: See, basically there is an evolution in the sub categories. I have always been telling you that the leader in a category may not change. What will change is, coming in of another category. You saw Kesh King making the Ayurvedic category a little more visible with Patanjali and I believe that category is becoming a lot more visible. VACNO was always there, VACNO was actually kept within the coconut oil space. Now it has been kept separately to help you understand the category better. Now the reason for this is that, the point we are trying to make is that, the non-coconut category or the value-added Perfumed Hair Oil category is all set to grow and if you look at it, it is growing at 5% and coconut is declining at 7% in volume terms, right? And therefore within the value-added Perfumed Hair Oil, the categories that you need to watch are Amla lite, VACNO, Ayurvedic and Cooling. These are the five big ones at this point of time. As we go along we might find a few more propping up.

Tejas Shah: Sure. And sir Almond Drop Hair Oil in this quarter, the Delta between the volume degrowth and price and value degrowth in ADHO, sorry, Volume degrowth in ADHO and value degrowth in ADHO was actually positive. So was there any mix change, material one, Y-o-Y basis?

Sumit Malhotra: Yes. There is a mix change. You should know that sachets pull down the value growth.

Tejas Shah: Last year this quarter?

Sumit Malhotra: Yes. Even this quarter, the more of sachet we sell, the lower the difference between value and volume, one. The second, if you are looking at our value and volume, it would be mix between various sales verticals, that is if exports go up, the value will go up more than the volume, right? And if canteen stores grow up quite significantly you would see reversal. Second, within the local or domestic sales, if Nomarks go up, the value will grow up faster than the volume, right? And third within Almond if bottles grow, the value will go faster than the volume. Have I confused you, Tejas?

Tejas Shah: No, no. Good enough. So you are saying basically channel mix change and SKU change were the reason for this?

Sumit Malhotra: No. I think three things. One is channel, second is brand and the third is SKU within Almond Drops.

Tejas Shah: Sure. Good enough. And sir if you look at our employee cost run rate for last 12 quarters, we have moved from 9 crores per quarter to now 15 crores this year and you mentioned that we have been recruiting resource throughout the organization and the like-to-like inflation in employee cost has not been that steep. So should we believe that this should envisage from here onwards and it won't go in the same proportion as we have seen in last 8 odd quarters?

Sumit Malhotra: This year you will see some basically because last year lot of people came in the second half of the year. So if you see the first half versus second half there is a delta. But if you extrapolate second half that should be plus the inflation of 7%-8%, that should be the employee cost this year**.**

Tejas Shah: Sure. And this is largely replacement of the existing resource or additional?

Sumit Malhotra: No, additional resources. Like I said we are building succession planning module in our structure. So wherever we have key management resources we have bought in a successor to him and in other departments which are maybe more operational or support we are bringing in additional hands to ensure that the resonation or the displacement of any top resource doesn't affect the overall strategy within our company.

Tejas Shah: Okay. And sir last question, with all the initiatives that we have taken in Nomarks, do you believe that it can go back to its peak run rate of 14 crores to 15 crores in this year?

Sumit Malhotra: I think it will happen in the second half of this year, by the time we move into additional because see, presently we are in two states. First half we will be in 6 states. That can't change it and take it to the run rate that you are talking of, but once we take this strategy all out and also the revival of the Cream segment in the Antimarks category, you can see numbers start coming up.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: One question related to your distribution network. You had emphasized that distribution is something which you are focusing on. When I look through your presentation which you had put in the website and compare it to the last year same time, I see that you have actually added around 4.5% distributors, right? So from 7,400 odd it has gone to around 7,700. By any chance you have some kind of a breakup of how much of that, the old base of last year and the new additional ones, what has been the volume growth from these two things? The overall question is that, how much more distribution-led growth is possible and do you actually find the incremental distribution is actually not adding more to your volume growth?

Sumit Malhotra: See, we do not have these numbers that you see because remember, the moment I appointed distributor actually stocks were going there from a wholesaler or some mother distributor or distributors in the larger urban area, so how much is coming out of the new distributor is very difficult to sort of estimate. What it does is, it increases your direct distribution. And in a situation like it is today, it is better to have direct distribution. So when we sit here in other 3 months from now, you will see that the number of distributor have actually gone up again. The reason for which is our focus on direct distribution, right? The number of outlets may not go up proportionately. So what we are actually doing is we are taking away from some of our wholesalers who are lapsing out and putting in direct distributors to be able to get to the outlets either to covered by the wholesalers.

Lakshmi Narayanan: Got it. And broadly sir, number of direct distributors you have is around 7,700?

Sumit Malhotra: See, in distributors, direct does not make any sense because direct is anyway through my depots. So we have around 1,500 distributors who are serviced from my depot directly.

Lakshmi Narayanan: CNSA.

Sumit Malhotra: CNSA and below the CNSA you have super stockists who act as a mini CNS and in that around 6,000 for distributors get it from super stockists.

Lakshmi Narayanan: So which means that you are saying that the objective is to improve the 1,500 direct distributors, the one…

Sumit Malhotra: No. Direct distributors and direct distributors are two different things. Direct distribution is what is covered by my people. So even the distributors who are under the super stockists are still covered by my people there.

Moderator: Thank you. The next question is from the line of Rajeev Anand from Narnolia Securities. Please go ahead.

Rajeev Anand: My question is on other expenses. Why other expenses for this quarter went up by 300 bps? Is this trend will continue further?

Sumit Malhotra: See, this is the cost of going for direct distribution. Like I said we are installing the handheld with all our salesmen and therefore that cost goes into other expenses. Within other expenses we have sub-heads which is, one is what we call selling and distribution overheads. Now that is directly proportional to the number of sales reps I increased and also the infrastructure like automation or handhelds or IT infrastructure that I am adding to increase my direct distribution.

Rajeev Anand: So it will continue?

Sumit Malhotra: This level will continue. It will go up in the next 1 or 2 quarters in terms of percentages but after that it will stabilize at a fixed cost.

Rajeev Anand: So this means, EBITDA margin gets drifted in coming quarters?

Sumit Malhotra: Have you seen the EBITDA margin drop this quarter because of this? We have an EBITDA margin of 34%, right? Which is very near the highest we have ever had. So actually it is extra cost but it helps us, one, grow the thing, grow the top line faster and also we have a succession margin in our gross margins to be able to take this load.

Rajeev Anand: And my second question is on dividend payout. What type of dividend payout we can expect for FY'18 and FY'19?

Sumit Malhotra: How can I tell you at this point of time what dividend payout? Our stated policy is that one third of our PAT, this is the minimum we will be giving to our shareholders as dividend. If we do not use the cash that we generate during the year, it will be higher, like it has been for the last 2 years effectively. If we use the cash, it will be a minimum of one third.

Moderator: Thank you. The next question is from the line of Dinar Seth from Multi Act**.** Please go ahead.

Dinar Seth: So my question is firstly on exports. Just wanted to understand how exports have done this quarter and where was it in the same quarter last year?

Sumit Malhotra: It has actually grown by 56% this quarter in value term. We have added 4 new markets. Among the big markets that we have added is Russia and Egypt and it started growing into these. Among the smaller markets we have added markets in Africa like Kenya and Ethiopia. It is going well. We are actually adding infrastructure in terms of manpower. We are also adding markets to our IB or international business. It is currently around 5.7% of our total turnover.

Dinar Seth: And what was it last year?

Sumit Malhotra: Last year it was just under 4 in fourth quarter. Fourth quarter was the reasonably bad quarter for IB last year.

Dinar Seth: Do you believe basically whatever strategy on exports is, that is kind of panning out?

Sumit Malhotra: Yes. But we still have a long way to go because see, the issue in exports is moving from a trading to a marketing strategy. By trading I mean you give it to the distributor in a country and he does the distribution. The second thing is we give it to a distributor. He manages the distribution and we manage the marketing. For example, for the first time we had started advertising in Nepal, Bangladesh, the Gulf and that has given us better consumer traction, right? Earlier on, we used to give it to distributors in each of these three countries and these are the 3 largest countries for us and they used to distribute. This is not only investment in terms of money but also a change in mindset of the team because trading is very easy. Trading is like

you find a guy, give him a container, when he sells give him another container, whereas marketing is showing where is the consumer or where the outlets are. Help him place it in those outlets. Once growth comes you grow **(Inaudible) 42.29**.

Dinar Seth: Okay. My second question is on, I am going back to the wholesale discussion that you mentioned. So currently, you mentioned that you wanted to reach to 20% in first half of '18, so currently where are we on that?

Sumit Malhotra: We are currently at around between 6 lakhs - 6.5 lakhs outlets. We have to reach around 7-7.5 lakhs outlet directly.

Dinar Seth: If not for this demon, would you say that the impact wouldn't have been this bad?

Sumit Malhotra: Yes. What was happening is, the companies that had reached a very high level of distribution were actually moving away from direct and into wholesale-led distribution. Just like Karthik pointed out direct distribution initially is very expensive because the return per outlet of new outlets opened or called on is always lesser than the existing outlets. But when demon came and I am a strong believer of the change in infrastructure that will happen as a result of demon and GST, the focus on direct distribution went up also and many companies like us started refocusing on direct distribution.

Dinar Seth: Sir, you just mentioned for the first half, but where do you see direct distribution that can possibly go up to whatever the potential is, as a percentage?

Sumit Malhotra: See, it is a very thin line because there will be a point of diminishing returns. There you will find that adding more people because adding outlets directly is adding more people. You are not getting the kind of returns you want. At that point of time you stock again. This is exactly what happens 3 years ago when we actually stopped increasing our direct distribution or adding manpower and started refocusing on using wholesale as a media to grow coverage. I'm not sure I can give you that answer now, but as we go along we keep on monitoring the per man return, which means that additional people are giving us what return. And when it comes to a point that you find that the delta is not attractive enough then you stop increasing direct distribution and refocus on indirect process to wholesale.

Dinar Seth: Lastly on rural front, which is a focus for us, correct me if I am wrong, if I am looking at tractor sales that is coming back very strongly and although we are talking about monsoons, but I'm just trying to understand, if you have seen things develop there, then shouldn't that figure down into sales for us, sales growth for us?

Sumit Malhotra: I would not agree that things are improving there. Things are in my opinion not improving there. You can have indicators like tractors and all that going up, but that could be pent up demand. I have not studied that well enough, so I wouldn't say that. The second thing is, lot of rural demand is met through indirect distribution because we have 650,000 villages all over India. There is no way you can reach all of them directly whether you like it or not it is

indirect. And if the cost of coverage in rural is high, these are the first outlets the wholesale will stop covering because not only does he have a higher cost of distribution but he also has a higher cost of credit because a lot of rural market works on credit. You would appreciate that they get cash only twice per year, so in between it is all credit that builds up with the local baniyas**.** So in my opinion in our company, rural has yet not come back to the level it was in October.

Moderator: Thank you. The next question is from the line of Ritesh Vaidya from Ambit Capital. Please go ahead.

Ritesh Vaidya: I wanted to know what is your secondary sales growth and how was this in Q4 versus say during the demonetization days of Q3?

Sumit Malhotra: Secondary sales growth in Q4 was around 3%-3.5%. I just now remember, secondary is not for the whole company because we do not measure secondary of modern trade or IB or canteen stores. So this is only general trade. So this is actually around 5 percentage point higher than what was there in Q3.

Ritesh Vaidya: So sir, to put it, maybe you are saying that there is, and also I mean what is the inventory level at the distributor end currently?

Sumit Malhotra: It is currently under 30 days.

Ritesh Vaidya: And has that reduced in Q4 or this Q3?

Sumit Malhotra: Yes, it has. In Q3, distributor level inventory had actually gone up. We normally obtain between 30 and 32 days in our system. All of which is paid because we sell on cash. So, it has gone up in Q3 in terms of number of days. It goes up in number of days not only because of physical stock improvement increase but also because their secondary has dropped because we are not talking about physical increase of inventory, you are talking about number of days and number of days is the physical stock divided by the secondary sales that we have done. So if your secondary has dropped your number of days could actually go up in the same physical inventory.

Ritesh Vaidya: Yes. So do you see a possibility of this dropping because assuming a secondary sales keep improving in Q1, there were case of some kind of restocking happening, but you are alluding to some more stocking?

Sumit Malhotra: No. They will be destocking in Q1 and not because of secondary is not rising, it will be because of GST coming in and the confusion that is there on what will happen to the stock on 1st of July.

Ritesh Vaidya: Sir but, has the GST confusion already started. I mean, in this quarter?

Sumit Malhotra: Yes. It has.

Ritesh Vaidya: Okay sir. So that could be one reason for some more destocking, okay.

Sumit Malhotra: And May it will be much more because the government will start advertising the upcoming GST where the confusion will start…

Moderator: Thank you. The next question is from the line of Prateek Chaudhary, an individual investor. Please go ahead.

Prateek Chaudhary: Sir could you give me the bifurcation of exports and domestic in Almond Oil sales for us, value wise?

Sumit Malhotra: Split of IB and domestic in Almond oil. I do not have a specific answer for this one and may be if you send an email to Kushal, he will be able to give you the break ups.

Prateek Chaudhary: Okay. And sir, what proportion of our Almond Drop sales value would be coming from the 100 ml bottle?

Sumit Malhotra: Just around 28.5%.

Prateek Chaudhary: And what would be from sachets?

Sumit Malhotra: Currently around 22%.

Prateek Chaudhary: And sir given the increase, competitive intensity in our Almond Hair oil, previously, I mean the reason why this question becomes important is because previously we had indicated that there will be some trials happening for new products in February and in other new product which will be coming up in the first quarter of FY'18. So what are our plans regarding in these areas?

Sumit Malhotra: Demonetization has actually derailed all these plans and it would be safe to say that you might not see a new product in the first quarter because again there would be restocking in May and June, if the rates of GST would be going up.

Prateek Chaudhary: So it will probably shift to second half of FY'18?

Sumit Malhotra: Yes. Actually one product has already been launched in modern trade in February. So that would continue but the product in the first quarter would get delayed.

Prateek Chaudhary: Was that the Almond Soap issue that you were referring to?

Sumit Malhotra: No. That is not a launch. That is a trial that we have done by giving it free along with our Almond Drop Hair Oil. This is Brahmi Amla Ayurvedic Oil that has hit the market in February.

Prateek Chaudhary: And just one of the previous participants asked about income taxes, and you mentioned that they might go back to the normal levels by, was it FY'19 you hinted that or FY'20?

Sumit Malhotra: Second half of FY'19.

Moderator: Thank you. The next question is from the line of Vishal Baraia from Antique Stock. Please go ahead.

Vishal Baraia: With this all this structural issues with wholesale distribution impact of potential impact of GST. Could the pressure on volume growth not extend beyond 1Q also?

Sumit Malhotra: Could be. See, one of the things we are eagerly watching is speed of implementation of GST because the confusion was there in demon. If that kind of confusion happens in the implementation of GST you could see even longer. We have been talking to consultants who have handled the GST in Australia, Canada and Malaysia. They say normally it takes between 6-8 months for the post-implementation of GST for the system to come back to normal. If that would happen, then two quarters are actually gone this year.

Vishal Baraia: And sir this is also assuming that monsoons are relatively normal. In case there is a pressure on monsoon, then it could be even worse, just to clarify.

Sumit Malhotra: Yes.

Vishal Baraia: And sir do you think will there be any impact of movement from unorganized to organized for all product categories?

Sumit Malhotra: See, in all product category that is Light Hair Oil and Skin Cream there is very little unorganized. It is unbranded, but yes in categories like may be coconut oil or unbranded hair oils, this is also unorganized, you could see effect.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Sir what is your outlook for export market?

Sumit Malhotra: We don't give guidance, you know that. We want to make it between 10%-12% of our total sales in the next 2 years.

Dhiral Shah: And sir, these margins are higher in exports as compared to domestic?

Sumit Malhotra: Yes.

Moderator: Thank you. The next question is from the line of Samir Gupta from IFL. Please go ahead.

Percy Panthaki: Sir, Percy here once more. Sir could you give the current spot price for oil as well, just like you gave for LLP?

Sumit Malhotra: It is between 80 and 82 but actually currently there is a downturn. So for each lot we are buying at lower rate. So on Saturday it had dropped to 78. So it is between 78 and 82. This is more or less equal to what it was last year.

Percy Panthaki: Understood and since your price hike is delayed, is there a likelihood that the LLP inflation will hit margins in Q1 or do you have enough stocks for that?

Sumit Malhotra: We have enough stock only for April. If we do not take a price hike in May, it would start hitting.

Percy Panthaki: Understood sir. And sir just wanted to understand the thought process behind sort of testing out this soap by giving it as a free sample, why the particular category of soap is something that you chose?

Sumit Malhotra: Because the reason why people buy Almond Oil is because of the high Vitamin E. Vitamin E translates much easier into things like Creams and Soaps. Creams we anyway have our own Nomarks Cream if you look at it and therefore it is left only soap. If you remember, Vitamin E is very good for skin. Vitamin E containing products should ideally be in skin care products or personal products which are used on skin and therefore soap is the better alternative.

Percy Panthaki: Understood sir. And on the tax rates, I mean a lot of companies have put up a plant before March 2017 to get that benefit, so just if you could jog my memory, have we done something of that sort?

Sumit Malhotra: You were not there in opening address. I have said that our plant in Guwahati has come up. Guwahati will supply to the total East of India which should give us around 20% of our national sales with GST because in Guwahati you actually pay excise and then get a refund. Therefore that could be admissible to deduction from GST and is much more sense to have more production out of Guwahati.

Percy Panthaki: Sir, my question was more in reference to the income tax rate, I mean if we have tax exemption in Assam why would we go to 33% in the second half of FY'19.

Sumit Malhotra: Because only 20% of your total sale would come out of from Guwahati. And if you listen to the answer, I said that if the current rate remains constant but most likely the government in the next 2 years will bring down the rates of income tax on corporates.

Percy Panthaki: Understood. But that 20% which goes through Guwahati, that would be taxed at income rate of zero, right?

Sumit Malhotra: Who told you it is zero? It is going to be in MAT plus-plus. There is nothing like a zero income tax in our thing. Today also in our North West we pay MAT. So the thing is the MAT you pay you can use that as an offset against the income tax to pay in future years.

Percy Panthaki: Understood. But sir even if it is only MAT, my only limited point was that it should not go to the maximum marginal rate, even in second half of FY'19?

Sumit Malhotra: This is what I said. Depending on what it is now we can take that as tax rates.

Percy Panthaki: Okay. And sir lastly the question on your Antimarks Cream. If I understand, earlier the sort of philosophy was that this is a problem solution issue and therefore we should not focus too much of Cream and we should push the face wash. And in your call today you said you would be focusing on Cream. So if you could just give me a context of the thought process behind coming back to Creams?

Sumit Malhotra: Yes Percy if you were there in the last con-call, I said we are trying out a change in strategy. The reason was that the brand name which is Nomarks is not yet strong enough to take extension into other categories. So the hypothesis that we went in while we are testing in these two states were that if the brand strong enough to ride on its own to get into things like Face Wash, Scrub, Soap, etc., or do you want to go back to the problem solution kind of a thing, build the brand name and then start extending. For example, one question was that can you extend Almond Drops. The answer is, is Almond drop strong enough to take the load of extension. Our hypothesis when we moved from Cream to Face Wash, was that Nomarks is strong enough because it is from a smaller category. Now it is getting into Creams again in those two states we realize that no it isn't and therefore you need to build the brand name again by using the problem solution and then maybe actually later they go back for extension into non-problem solution categories.

Moderator: Thank you. The next question is from the line of Karthik Chellapa from Buena Vista Fund. Please go ahead.

Karthik Chellapa: Just two questions. One is on this new emerging categories of oil, whether it is 7 in 1 oils or let us say there are Lights of Kesh Kanti or so, how exactly are we combating this to make sure that Light Hair Oil does not lose share to these oils, apart from let us say, our new ad campaign, is there any other specific measures that we are thinking of to make sure that we do not suffer as a process of the fragmentation and my second question is on Amla? Although we are extending it to more states, is there any differentiation that we are offering vis-à-vis Shanti Amla or is this just going to be like a price warrior kind of a brand?

Sumit Malhotra: I will answer the second one. I think it is going to be price warrior only and the logic basically is to create a situation wherein, if Shanti Amla wants to remain at the lowest priced hair oil, it

has competition at that segment and we don't allow it to increase price because of our price warrior. In terms of the first thing, there are two sides of it – One is making Almond Drops stronger by playing the nutrition game a little stronger. If you had seen the new ad, you would realize that the ad has much more stress on nutrition because the reason why anybody would shift from a Light Hair Oil to Ayurvedic Hair Oil is because he would believe that the Ayurvedic Hair Oil provides more nutrition and therefore we are building the nutrition platform in Light Hair Oil. The second thing is we have rebranded and relaunched Brahmi Amla as a Brahmi Amla Ayurvedic Oil. Therefore, trying to use the growth in Ayurvedic oil as a platform of growing Brahmi Amla itself.

Karthik Chellapa: Okay. This Brahmi Amla Ayurvedic oil is distinct from your low priced Amla, it is distinct?

Sumit Malhotra: Very different.

Moderator: Thank you. Well, that was the last question. I now hand the floor over to the management for their closing comments.

Sumit Malhotra: Thanks for joining the call. All I can say is we are in for very interesting times in the next 3-6 months and to whomsoever I have spoken on GST, I think there is a whole range of consultants from all over the world coming to India to see how we do on GST and I think it is going to affect companies in ways that we can never even fathom and therefore that will add to the interest in this segment post the implementation of GST. Yes, it is will add strain on may be the margins or the profitability and if inflation does set in, which the government is really trying to contain by keeping rates low, but if they are unable to do it, inflation will cost you another hit in volume growth in the next 2 or 3 quarters. So I hope you will all be there to listen to what happens post GST. Till then have a great day ahead.

Moderator: Thank you. Ladies and gentlemen, on behalf of Kotak Securities we conclude today's conference. Thank you for joining. And you may now disconnect your lines.